

Message Text

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ACTION ARA-14

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SUBJECT: GOVERNMENT WIDE DEVELOPMENT COOPERATION STRATEGY
FOR MIDDLE INCOME COUNTRIES - LATIN AMERICA

REF: STATE 135009

1. SUMMARY: WHAT HAPPENS IN MEXICO AS REGARDS ITS
ECONOMIC DEVELOPMENT IS BOUND TO HAVE A SIGNIFICANT IMPACT
NOT ONLY ON OUR BILATERAL RELATIONS WITH MEXICO, BUT ALSO
ON OUR INTERNAL POLITICS. MEXICO'S DEVELOPMENT OBJECTIVE
IS FAIRLY SIMPLE AND STRAIGHTFORWARD - A 7-8 PERCENT
ANNUAL GROWTH RATE ACCOMPANIED BY THE CREATION OF 800,000
NEW JOBS. DEFINING THE "NEEDS" TO ATTAINING THIS OBJECTIVE
AND THE "CONSTRAINTS" THEREON IS CONSIDERABLY MORE DIFFI-
CULT. THE POLITICAL CONSTRAINTS ARE PARTICULARLY IMPORTANT,
THOUGH THERE ARE DIFFERENCES OF VIEW, NOT ALWAYS UNRELATED
TO THE POLITICAL, ON ECONOMIC GROUNDS AS WELL. THE USG
ROLE WILL BE BEST EXERCISED THROUGH THE IFI'S AND IN SMALL,
SPECIFIC PROJECTS. BY ENGAGING THE MEXICANS IN A MULTI-
LATERAL EXERCISE ON THIS THEME, FURTHER IDEAS MAY BE
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ATTAINED. END SUMMARY.

2. AS BACKGROUND, WE BELIEVE IT USEFUL TO CATEGORIZE IN
SOMEWHAT GREATER DETAIL MEXICO'S SITUATION. WHILE IT IS
A "MIDDLE INCOME" COUNTRY IN TERMS OF PER CAPITA GDP, THIS
MASKS WIDE DISCREPANCIES IN INCOME LEVELS. PERHAPS 30-40
PERCENT OF MEXICO'S 65 MILLION INHABITANTS LIVE AT OR

BELOW A SUBSISTENCE LEVEL THAT IS FAR BELOW THE U.S. DEFINITION OF SUCH A LEVEL. THIS PERCENTAGE OF THE POPULATION HAS NOT BENEFITED SIGNIFICANTLY FROM MEXICO'S IMPRESSIVE POST-WAR GROWTH. THE DEVELOPMENT STRATEGY OVER THE PAST THIRTY YEARS HAS FAVORED THE UPPER HALF OF THE POPULATION AND THE TOP 20 PERCENT IN PARTICULAR, WHO OFTEN LIVE AT LEVELS COMPARABLE TO THEIR U.S. OR EUROPEAN COUNTERPARTS.

3. MEXICO'S POST-WAR DEVELOPMENT STRATEGY HAS BEEN PUBLICLY RECOGNIZED AS OUTMODDED, BUT NOT SO MUCH FOR ITS INABILITY TO BETTER THE LOT OF THE LOWER HALF OF THE POPULATION AS FOR ITS INABILITY TO CONTINUE TO GENERATE A HIGH RATE OF ECONOMIC GROWTH, THE BENEFITS OF WHICH ARE ENJOYED BY THE MORE POLITICALLY POWERFUL, I.E., THE UNIONIZED WORKERS, THE URBAN SALARIED CLASS, BOTH CLERKS AND THE MANAGERS, AND THE OWNERS OF CAPITAL.

4. MEXICO'S DEVELOPMENT OBJECTIVE IS TO ACHIEVE A 7-8 PERCENT ANNUAL ECONOMIC GROWTH RATE ACCOMPANIED BY A MASSIVE INCREASE IN THE NUMBER OF PRODUCTIVE JOBS CREATED, ROUGHLY 800,000 A YEAR, OVER THE MEDIUM TERM. VERY LIKELY THE FIRST PART OF THIS GOAL - THE ECONOMIC GROWTH RATE - WILL TAKE PRECEDENCE OVER THE SECOND AS IT HAS IN THE POST-WAR PERIOD AT LEAST PARTIALLY FOR POLITICAL REASONS. BASIC HUMAN NEEDS MAY CONTINUE TO BE NEGLECTED BECAUSE OF A LACK OF POLITICAL WILL AND ABILITY TO ALTER THE PRESENT SOCIAL LIMITED OFFICIAL USE

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SYSTEM.

5. A MASSIVE INCREASE IN THE NUMBER OF JOBS CREATED IS SEEN AS THE ONLY EFFECTIVE WAY TO REDUCE PRESENT INCOME DISPARITIES. TO ACCOMPLISH THIS, IT MAY BE NECESSARY TO DEPRIVE SOME OF THE "HAVE" GROUPS OF AT LEAST PART OF THE GROWTH DIVIDEND, IN TERMS OF CONSUMPTION, AND RETAIN SAVINGS IN THE COUNTRY FOR THE INCREASED INVESTMENT NECESSARY TO CREATE THE ADDITIONAL JOBS. TO THE DEGREE THESE SAVINGS ARE FORCED, AS MAY BE NECESSARY, THEY WILL BE STRONGLY RESISTED BY THE POLITICALLY POWERFUL WHICH INCLUDE NOT ONLY THE SENIOR AND WEALTHY POLITICIANS, THEIR HANGERS-ON, AND THE CAPITALISTS WHO CAN INVEST THEIR FUNDS OUTSIDE THE COUNTRY, BUT ALSO THE ORGANIZED WORKERS AND MIDDLE LEVEL EMPLOYEES WHO WILL WANT TO CONSUME WHAT THEY VIEW AS THEIR SHARE OF ANY GROWTH DIVIDEND. THERE IS A PARALLEL TO FIGHTING INFLATION IN THE U.S. IN THAT MOST MEXICANS IN THE UPPER HALF OF THE POPULATION WOULD BE WILLING TO SEE MORE ATTENTION PAID TO THEIR FELLOW CITIZENS ON THE LOWER END OF THE SCALE, BUT NOT AT ANY PERSONAL COST.

6. IN ADDITION TO POLITICAL WILL, MEXICO NEEDS (A) A NEW

DEVELOPMENT STRATEGY TO ATTAIN ITS DEVELOPMENT OBJECTIVE AND (B) THE RESOURCES - BOTH MATERIAL AND HUMAN - TO IMPLEMENT THE STRATEGY. A CONSENSUS ON WHAT THIS STRATEGY SHOULD ENCOMPASS IS SLOWLY EMERGING AND INCLUDES SUCH ELEMENTS AS A REALISTIC EXCHANGE RATE, A MORE OPEN TRADING SYSTEM, INCREASED INVESTMENT INCENTIVES, RELATIVELY CHEAP LABOR COSTS, AND A BETTER STRUCTURED AGRARIAN ECONOMY.

7. THE GOM HAS TAKEN MEASURES AIMED AT IMPLEMENTING THESE POLICIES INCLUDING THE DEVALUATION, A LOOSENING OF THE IMPORT-LICENSING SYSTEM, AN INVESTMENT TAX CREDIT, AND A WAGE POLICY. YET, THERE ARE, BOTH AS PART OF AND IN ADDITION TO THE POLITICAL PROBLEMS REFERRED TO ABOVE, A NUMBER OF CONSTRAINTS ON THE GOM IN ITS EFFORTS TO EVOLVE A NEW LIMITED OFFICIAL USE

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DEVELOPMENT STRATEGY. FOR EXAMPLE, THE GOM MAY HAVE TROUBLE MAINTAINING A "REALISTIC" EXCHANGE RATE. THE PESO-

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DOLLAR RATE HAS BEEN VIRTUALLY STABLE FOR THE PAST FOURTEEN MONTHS, ALTHOUGH THE MEXICAN INFLATION RATE HAS BEEN MORE THAN TWICE THAT OF THE U.S. A STABLE EXCHANGE RATE HAS POLITICAL IMPORTANCE; IT ALSO INDUCES CAPITAL REFLOWS. BUSINESS INTERESTS WITH POLITICAL IMPORTANCE OPPOSE A MORE

LIBERAL TRADING SYSTEM BECAUSE THEY FEAR (OR ARGUE) THAT EXTERNAL COMPETITION COULD DRIVE THEM OUT OF BUSINESS WITH AN IMPACT ON JOBS AND OVERALL ECONOMIC ACTIVITY. INCREASED INVESTMENT REQUIRES A STABLE POLITICAL CLIMATE, CLEAR ECONOMIC POLICIES, SOME DEGREE OF PROFITABILITY, ETC. EFFORTS TO MAKE GREATER USE OF CHEAP LABOR WILL RUN INTO MINIMUM WAGE LAWS AND OPPOSITION FROM ORGANIZED LABOR WHOSE WAGES ARE OFTEN SUBSTANTIALLY ABOVE THE MINIMUM WAGE AND WHO ARE A KEY SUPPORT TO THE RULING PARTY. ATTEMPTS TO REFORM THE AGRARIAN ECONOMY MAY ALSO MEET POLITICAL OPPOSITION. MEXICO'S POLITICAL STABILITY RESTS ON A ONE-PARTY SYSTEM THAT HAS REWARDED THE FAITHFUL GENEROUSLY. FINALLY, THERE ARE VARIOUS ELEMENTS IN MEXICO THAT MAY OPPOSE SUCH AN APPROACH ON ECONOMIC AS WELL AS POLITICAL GROUNDS, I.E., THE OFFICIALS WHO ARGUE THERE IS NO EXTERNAL CONSTRAINT, OR THOSE WHO ARGUE FOR GREATER WELFARE TYPE SPENDING FOR POOR RURAL GROUPS.

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8. ASSUMING THAT THE POLITICAL AND ECONOMIC CONSTRAINTS TO A NEW DEVELOPMENT STRATEGY CAN BE OVERCOME, THE CONSTRAINTS ASSOCIATED WITH THE SECOND "NEED" - HUMAN AND MATERIAL RESOURCES - WILL REMAIN. CERTAINLY MEXICO WILL REQUIRE SUBSTANTIAL MATERIAL RESOURCES FROM ABROAD TO ATTAIN ITS DEVELOPMENT RESOURCES. FOR AT LEAST ANOTHER YEAR OR TWO IT WILL REQUIRE FINANCIAL RESOURCES TO COVER ITS CURRENT ACCOUNT DEFICIT, THOUGH IN TERMS OF TRADE IN GOODS AND SERVICES, MEXICO WILL BE AT OR CLOSE TO A BALANCE. MEXICO'S CAPACITY TO ABSORB GOODS IS UNKNOWN, BUT IT IS PROBABLY CONSTRAINED BY CONCERN OVER THE SIZE OF ITS EXTERNAL DEBT AND ITS STABILIZATION PROGRAM. THESE CONSTRAINTS MAY CONTINUE INTO THE 1980'S IN SPITE OF LARGER FOREIGN EXCHANGE EARNINGS FROM OIL AND GAS. AT THIS POINT IT IS VERY DIFFICULT TO MAKE A JUDGMENT ON WHETHER MEXICO WILL BE ABLE TO, OR WANT TO RUN A DEFICIT IN ITS TRADE ON GOODS AND SERVICES IN THE 1980'S.

9. HUMAN RESOURCES MAY PROVE TO BE A GREATER CONSTRAINT THAN THE SUPPLY OF GOODS. WHILE MEXICO HAS PLENTIFUL LABOR, THE AVAILABLE LABOR IS NOT VERY SKILLED. THIS WOULD SEEM TO IMPLY THE NEED FOR A LABOR-INTENSIVE TECHNOLOGY THAT WOULD EMPLOY UNSKILLED WORKERS AND FOR MORE INTENSIVE EFFORTS AT EDUCATION.

10. EXTERNAL ASSISTANCE CAN PLAY A ROLE IN ATTAINING THE DEVELOPMENT OBJECTIVE. IDEAS FOR A DEVELOPMENT STRATEGY CAN COME FROM ABROAD, AND LEVERAGE TO IMPLEMENT THESE POLICIES CAN BE ASSOCIATED WITH FINANCIAL ASSISTANCE. THE WORLD BANK AND, TO A LESSER DEGREE, THE IDB ARE ACTIVE IN

BOTH THESE REGARDS USUALLY WORKING IN CONJUNCTION WITH GOM
OFFICIALS WHO SHARE THEIR VIEWS. THE POSITIVE ROLE THAT
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THE IFI'S CAN PLAY IS AN ARGUMENT FOR THEIR CONTINUED LEND-
ING TO MEXICO. THE IMF HAS ALSO PLAYED A POSITIVE ROLE
AND IT MAY BE ABLE TO PLAY AN EVEN LARGER ROLE IF THE
WORLD BANK AND THE IDB WERE TO SLOW DOWN THEIR OWN ACTIVI-
TIES. PUBLIC CRITICISM OF THE IMF'S ROLE IN MEXICO HAS
BEEN RELATIVELY MUTED.

11. ASSISTANCE FROM THE USG IS AND WILL CONTINUE TO BE
LIMITED BY MEXICAN POLITICAL FACTORS, THOUGH THERE HAVE
BEEN EXCEPTIONS, MOST NOTABLY OUR SUPPORT OF THE GOM
POPULATION PROGRAM, THE SCREWORM COMMISSION, AND THE
NARCOTIC EFFORTS. OTHER OPPORTUNITIES MAY ARISE FOR THE
USG TO PROVIDE ASSISTANCE TO DEAL WITH SPECIFIC PROBLEMS
THROUGH NON-GOVERNMENT ORGANIZATIONS AND RATHER QUIETLY.
WE COULD MAKE SIGNIFICANT CONTRIBUTIONS TO MEXICO'S
DEVELOPMENT BY ABSORBING PART OF MEXICO'S EXCESS UNSKILLED
LABOR TO THE EXTENT OUR ECONOMY AND EMPLOYMENT LEVELS
PERMIT AND BY SETTling THE NATURAL GAS PRICE ISSUE.

12. IN OUR INFORMAL DISCUSSIONS WITH THE GOM ABOUT A JOINT
DEVELOPMENT FUND, THE MEXICAN AVERSION TO THE NOTION OF A
USG ASSISTANCE PROGRAM WAS APPARENT. THE GOM WOULD, IN
PARTICULAR, OPPOSE ANY EFFORT BY THE USG TO BRING ABOUT
CHANGES THAT COULD BE SEEN AS HAVING A POLITICAL IMPACT.
MEXICO IS TRADITIONALLY AND VOCIFEROUSLY OPPOSED TO ANY
AND ALL FORMS OF U.S. ADVICE OR INTERVENTION IN ITS INTER-
NAL AFFAIRS. OUR BEST OPPORTUNITIES LIE IN SUPPORTING THE
DEVELOPMENT WORK OF THE IFI'S, WHOSE IMPACT ON DEVELOPMENT
POLICY IN MEXICO IS FAR FROM NEGLIGIBLE, BUT VIEWED AS
ACCEPTABLE BECAUSE IT IS NOT VERY VISIBLE AND IT COMES
FROM MULTILATERAL ORGANIZATIONS OF WHICH MEXICO IS A
MEMBER IN GOOD STANDING.

13. SHOULD WE BE INTERESTED IN OBTAINING MEXICAN IDEAS ON
THIS SUBJECT AND IN SO DOING INFLUENCE LOCAL POLICIES, IT
MAY BE POSSIBLE TO ORGANIZE SEMINARS OR PERHAPS EVEN SOME

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KIND OF STEERING GROUP TO ADDRESS THE SUBJECTS RAISED IN THE REFTELS. SEVERAL MEXICAN OFFICIALS HAVE REMINISCED WARMLY ABOUT THEIR EXPERIENCE IN THE EARLY DAYS OF THE ALLIANCE FOR PROGRESS. SOME KIND OF HIGH-LEVEL INTER-AMERICAN GROUP THAT COULD AFFECT RESOURCE FLOWS (INCLUDING PRIVATE RESOURCE FLOWS) MIGHT BE ATTRACTIVE TO MEXICO AND MIGHT, INDIRECTLY, INFLUENCE THEIR OWN POLICIES.

14. OUR COMMENTS HAVE BEEN BROAD. WE HAVE NOT ATTEMPTED TO IDENTIFY THE 10 OR 100 KEY BOTTLENECKS TO MEXICO'S DEVELOPMENT AND PROBABLY COULD NOT DO SO IN THE TIME FRAME FOR THIS MESSAGE. WE WOULD LIKE TO KEEP ABREAST OF THE DCC STUDY AS IT PROGRESSES AND WOULD BE HAPPY TO CONTRIBUTE FURTHER WHERE USEFUL. LUCEY

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